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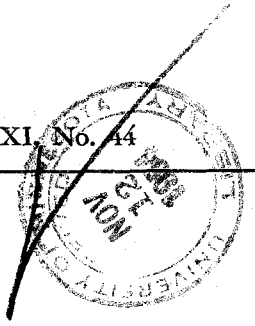

THE DIXON-YATES CONTROVERSY

By WILLIS J. BALLINGER

THE RAGING CONTROVERSY over the offer of Middle South Utilities (E. H. Dixon, President) and of the Southern Company (E. A. Yates, Board Chairman) to supply a plant of the Atomic Energy Commission with a comparatively small amount of power can only be understood by knowing what is really behind the widely circulated misrepresentations of their proposal.

The current troubles of these businessmen actually stem from an event involving other power interests several years ago. At that time all power in the TVA area used by plants of the Atomic Energy Commission came from the Tennessee Valley Authority. AEC Commissioner Thomas Murray objected to TVA's monopoly of this business and proposed that private utilities be permitted to bid on AEC power contracts. Surprisingly, the friends of TVA on AEC voted for the Murray proposal. Some say there was a method in their seeming fair-mindedness — that they figured it would be impossible for any private utility to underbid TVA and, therefore, considered the Murray proposal useful as a Commission gesture toward free enterprise.

The "Knoxville colossus" (critics charge) sells power cheaper than private utilities because, as a government corporation, it avoids two heavy expenses which private utilities have to bear: (1) TVA pays only a small part of the taxes a private utility would pay; and (2) while private utilities pay from four to six per cent for their capital that of TVA is a gift from the Federal Treasury.

Last year TVA reported a gross power income of $104,877,869 and expenses of $85,583,760 which included $3,418,110 that TVA voluntarily paid in taxes. A recent reliable study of TVA by the Arkansas Power-Light Company shows that, if last year TVA had paid its fair share of taxes (had been taxed on the basis of five private utilities operating in Tennessee), its tax remittance would have been around *eighty millions* instead of the $3,418,110, its voluntary contribution to local treasuries — a difference of over seventy-six millions. And if TVA had paid its fair share of taxes plus even the low government interest rate of 3% on its power investment (admitted by TVA to be over eight hundred million dollars), with provision for paying back in 40 years this Treasury money, TVA's actual expenses last year would have been around $195,000,000 instead of $85,583,760 as reported. TVA's gross power income of $104,877,869 would have been utterly inadequate to cover them, and TVA rates to consumers would have had to be considerably raised.

THE FRIENDS OF TVA on AEC, knowing these advantages enjoyed by TVA in producing power, naturally concluded that the Murray proposal couldn't result in any loss of business to TVA. But the unbelievable happened — David trimmed Goliath.

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Wes McAfee, president of five investor-owned utilities turned in a low bid. Those on AEC who thought private business couldn't win were dismayed, but rallied to salvage what they could for TVA. Although the McAfee group had clearly won the whole contract, the Commission gave them only half of it, the other half going to TVA.

The McAfee plant (called the Joppa plant) was located just across the river in Illinois from the TVA plant (called the Shawnee plant). A race to see which plant would be completed first — a contest between private and government engineers — was proclaimed by public power advocates. McAfee called in the crack technicians of the private power industry — EBASCO engineers. This service organization (wholly owned subsidiary of Electric Bond and Share Company) has been constructing a large percentage of all private power plants in the nation since 1907.

Then things began to happen. The Joppa plant was hit by a series of devastating strikes. The Shawnee plant had some strikes fewer in number and far milder. All the unions involved belonged to a labor federation fanatically in favor of TVA. Had labor partisans of TVA sought to insure completion of Shawnee first?

Anyway, as Joppa fell behind in the race, TVA spokesmen pointed to Shawnee as an example of the greater efficiency of government enterprise. Two labor leaders in the Joppa plant have been indicted for attempting to extort over a million dollars from the McAfee groups as the price of labor peace. But there are those who say more will ultimately come out.

The victory of Wes McAfee in taking even a part of an AEC contract away from TVA was frightening enough to its supporters. This was followed by some doings in Congress still more alarming to the apostles of TVA.

Congress in its last session refused to allow TVA to build a big steam plant at Fulton, Tennessee, although the territory served by TVA needed more power. Had Congress finally become aware of the economic fraudulency of TVA's lower rates? Had Congress realized that they were due solely to TVA's ability to dodge taxes and command free capital from the Federal Treasury?

There loomed the harrowing possibility that Congress might allow private companies to provide any further power needed in the Tennessee Valley. And Congress might even get around to compelling TVA to bear its fair share of taxes, pay a reasonable return on its capital advanced to it by the government, amortize that capital and stand on its own feet as a private utility has to do.

Just as this alarming attitude on the part of the Congress was growing, along came Dixon and Yates to take more business away from TVA. To all radicals, TVA is a god-head — a flaming symbol of the socialism-to-be. Hence, on the heads of Dixon and Yates descended the full fury of the powerful leftist smear bund, which is apparently convinced that the whole TVA venture faces disaster unless the latest poaching on its preserves by Dixon and Yates is beaten back.

WHAT ARE THE REAL FACTS in the controversy? Dixon and Yates are in the picture by express invitation of the government. The Eisenhower Budget Bureau, striving to reduce government expenditures, was faced with this problem. AEC needed more power. A new power plant would have to be constructed since TVA had no spare

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power. If TVA built the new plant, the Budget Bureau would have to ask Congress for the money and the budget would have to be increased. If, however, private industry did the job, the construction funds would come from private investors and the Budget Bureau wouldn't have to ask Congress for a penny. Acting with Presidential approval, the Bureau requested AEC to get the plant constructed by private interests. The AEC first approached McAfee, but he declined. Through McAfee, the Commission found Dixon and Yates.

THE BUND THEN RELEASED its first smear. Bobbie Jones, the famous golfer, happened to be a director of one company in the Dixon-Yates group and to own a few shares in it. It was widely whispered that President Eisenhower was giving the Dixon-Yates interests a juicy AEC power contract to show his appreciation of Bobbie's golf games with him. This was too raw even for some of the strong left wing supporters of TVA in Congress who hastened to assert their faith in the President's integrity.

Memphis citizens were alarmed by the false charge that the Dixon-Yates contract would force TVA to raise its rates to them. TVA *will* use the higher cost power of the Dixon-Yates plant (located next door to Memphis) in Memphis, releasing equivalent power farther up its lines to the AEC plant needing current. But AEC pays in full for the Dixon-Yates power used by TVA and its higher cost, therefore, can in no way affect TVA's Memphis rates. It seems that TVA has considered raising its Memphis rates but perhaps fears public resentment. Apparently the plan was to blame Dixon-Yates if TVA did increase the rates.

A Senate sub-committee chairman (a Galahad for TVA) branded the Dixon-Yates deal "monopolistic" charging that the AEC arbitrarily favored Dixon and Yates and did not give other private parties fair consideration. Actually, only one other private party was interested — a Walter von Trescow. The Budget Bureau reported adversely on his proposal citing the following reasons: (1) von Trescow had no real experience in the power business; (2) his group had no existing organization to do the job; (3) his proposal had no rigid ceiling on construction costs protecting the government from an inflated rate base.

Suddenly, out of the blue came J. D. Stietenroth, former officer of Mississippi Power-Light, one of the companies of the Dixon group. He told a Senate sub-committee that the Mississippi company kept two sets of books — one for tax purposes and the other for rate-making; that the Middle South Utilities of which Dixon is president had violated the Public Utility Holding Company Act. Since Stietenroth claimed knowledge for some time of the wrong-doing he alleged, impartial observers wondered why he hadn't previously complained to the Federal Power Commission about the Mississippi Company to the Securities-Exchange Commission, which enforces the Holding Company Act, about Middle South Utilities. Was it mere coincidence that Stietenroth's charges came in the middle of the left wing onslaught on the Dixon-Yates contract?

The noted accounting firm of Haskins and Sells filed sworn statements with the committee that it had investigated the books of the Mississippi company and found them properly kept.

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IT HAS BEEN widely asserted that the government will put up the money for constructing the Dixon-Yates plant, although the circulators of this legend must have known its falsity. The whole purpose of the Budget Bureau in wanting the plant constructed by private interests was that the construction funds would come from private sources and the government wouldn't have to put up a cent.

But it is on the ground of *pro bono publico* that denunciation of the Dixon-Yates contract reaches white heat. It is charged that AEC will pay a great deal more for Dixon-Yates power than TVA would charge; that the Dixon-Yates group stand to make 9% on the money provided; that the government must reimburse the Dixon-Yates group for all increases in the cost of labor, coal and taxes; that in brief, the whole contract is a guaranteed bonanza "for greedy private power interests". To these sweeping charges Dixon and Yates demur as follows:

(1) The Dixon-Yates contract is for twenty-five years. In such a contract it is just and customary that the performer protects itself from unforseeable increases in costs. Otherwise, those putting up the money under the Dixon-Yates contract might not get a fair return on the use of their capital — might even fail to get their capital back.

(2) The Dixon-Yates group will put up $5,500,000 of equity risk capital. The rest (over one hundred million dollars) will be borrowed from banks and insurance companies. The investment *as a whole* will earn only three and three quarters per cent — little more than the current return on government bonds. On its equity risk capital (risky, *because the government can cancel the contract at any time*) the Dixon-Yates group may make nine per cent. But 9% — if realized on this *small part of the total investment* — will include a legitimate reward to the Dixon-Yates groups as promoters of the whole enterprise, plus something more for the risk of government cancellation should cheaper atomic energy develop or should the government find better terms from anyone else. In financial markets equity capital (involving much less risk and paying no promotion costs) is in a number of cases actually yielding nine per cent.

(3) Will the Dixon-Yates contract gouge the government? Senator Fulbright says the Dixon-Yates plant will pay annual taxes (State and local) of $1,499,000 and, therefore, the true cost of its power will be only $282,000 more a year than TVA is charging. No private utility (it is emphasized) can sell power more cheaply than TVA, if TVA presses its privileges to the limit. Consequently in terms of private enterprise, Dixon-Yates have made a price very advantageous to the government. It comes down to two choices: (1) if TVA supporters win, taxpayers immediately will have to put up over $100,000,000 to build its plant and TVA's economic fraudulency will be extended; (2) if the Budget Bureau wins, taxpayers will save $100,000,000, and sound private enterprise will have scored a victory.

Senator Fulbright is an ardent supporter of TVA, yet is also honestly convinced that the Dixon-Yates contract is definitely *pro bono publico* — in fact, a bargain for the government. His blessing of the contract has been a stunning blow to the high priesthood of the TVA god-head. It has, in fact, considerably upset the efforts of the smear bund to relegate Dixon and Yates to the limbo reserved for public malefactors.

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HUMAN EVENTS

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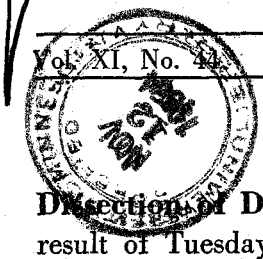

Direction of Defeat: In the past six hours, as this copy is being rushed to the printer, one clear result of Tuesday's election which emerges with burning clarity is this — the New Deal wing of the Republican party has suffered a severe and stinging defeat.

In the last ten days of the campaign, the conservative wing of the party (under National Chairman Len Hall) swayed the strategy of the team and, importantly, of the President, thereby probably saving the party from a disastrous defeat, and modifying the Democratic triumph from all-out to partial. Undoubtedly, Hall and his friends over-rode the "liberal" counsels of the Palace Guard and changed the whole note of the eleventh-hour attempt to stave off a rout. The conservatives desperately fought to undo the damage of the preceding hundred days of campaign when "liberal" advice had produced the phenomenon which the "liberals" monotonously called "apathy." On the whole, this last-hour intervention did well.

The question is being asked here today — how much better might it have been if Hall had run the whole campaign on his lines? The answer is — it might well have been a clear-cut victory. Even "liberals" concede that Nixon's repeated attacks on the Communists since the end of October had salutary effects. Many wonder now how much the President's complete reversal of tactics on the Communist issue late last week won Republican votes, when at Cleveland he mentioned the issue, notwithstanding his stubborn refusal of the past nine months to recognize this question at all in the fight. How much better might it have been, if the President weeks ago had gone all-out lambasting the New Deal Democrats for their "red-herring" dismissal of the matter? If Nixon made gains thereby, how much farther might the President have advanced if he had thrown all the prestige of his office into this crucial breach?

But the underlying and, from an intra-party standpoint, perhaps irreparable wound inflicted on New Deal Republicans is the tale told by the results of the state races. In New York, Pennsylvania, and Connecticut, Republican regimes toppled and joined the limbo where sits the defeated Driscoll state machine in New Jersey, ousted by the Democrats last year. What party leaders are already pondering is the following fact: it was the combined strength of the New York, Pennsylvania, Connecticut and New Jersey boss-ridden machines in the GOP which stopped Taft at the nominating convention in Chicago in June 1952, and ensured the nomination of Eisenhower. Television fans can now remember vividly how GOP Governors John S. Fine of Pennsylvania and Thomas E. Dewey of New York cracked the whip over their delegations to vote for Ike against Senator Taft. With "Old Guard" members of the Congress either winning re-election or retaining their seats, Republicans may well reflect on which wing of the party offers the firmest basis for survival of and victory by the party in 1956.

The Real Democratic Portent: Whatever the Republicans may say about each other, they must recognize the fact that the Democrats have won a big victory. That victory is not only in the Congress. Of equal if not greater importance is the Democratic capture of the State governments of New York, Pennsylvania and Connecticut (plus their hold on New Jersey, won last year). For possession of the local machinery in these states in the next two years places the Democrats in a very strong

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position for the presidential election of 1956. This tremendous advantage worries the practical GOP political leaders who know all too well what it will mean two years hence.

Indeed, one of the nightmares of the latter is expressed somewhat as follows: The above-mentioned states (New York, Pennsylvania, New Jersey and Connecticut) cast 101 electoral college votes. Mr. Harriman, of course (and politicos have their eyes firmly riveted on Averell today) would try to keep the South in the Democratic fold. If that should prove successful, then the Democrats would add the Confederacy's 128 electoral votes to make a total of 229. Capture of the 48 border state electoral votes would make 277 the result (still not including any other Northern states). Two hundred sixty-six electoral votes are sufficient to elect a President.

The balm — if not for "tribal Republicans," at least for those who favor realignment with the Southern conservatives — is the "if" in the Southern adhesion to Northern New Deal Democratic forces for continued unity. The victories of Thurmond and Shivers might betoken another big split in the Democratic party.

Sun Rises in the West: But if the GOP must endure a handicap in the big city Eastern states (as described above), where must it look for partial if not equivalent substantial basis? Illinois? Well, its hopeful Meek went down yesterday. Yet, that is not all. What struck many observers here in the past twenty-four hours was the Republican strength in the West. Utah's Governor, J. Bracken Lee gave us by long distance phone today the following important statement: "I note with keen interest the tremendous victory of Republican Governor Goodwin Knight of California — the only GOP Governor to be elected in a large pivotal state. Unquestionably, Republicans will have to take that event into account in thinking of 1956."

Governor Knight, who smothered his Democratic opponent under a big majority, does indeed loom on the GOP party and national horizon. Knight is a conservative who strongly opposed the "liberal" Governor Warren; indeed, some in California believe he "eased" Warren out of the state picture. Certainly, his victory this week puts him and his close friend, Senator Knowland, far ahead of not only the Warren but also the Nixon influence in that state. Both are men who enjoyed the esteem of the late Senator Taft. In view of much speculation as to the uncertainty of Ike's intentions about 1956, these now unchallenged leaders of the GOP in this key state should get much more than mention from now on.

Realignment: Senator Karl E. Mundt — we found when we reached him by long-distance telephone in South Dakota an hour ago — had done some thinking after surveying the results of yesterday's polling. Mundt, it may be recalled, for some years previous to 1952 had stood as the great Senatorial advocate of party realignment. That issue was unfortunately put on ice during the past year and a half. The South Dakota Senator now authorizes us to say the following:

"Yesterday's election results make a political stock-taking the first order of business for Republicans. Again, as in the past, the election shows Republicans to be an overwhelming majority outside the South and outside the big cities of the North, but not strong enough to control Congress from that narrow sectional base. In this 'agonizing reappraisal' of our political position, we Republicans must chart a course that will bring additional and effective allies to our standard.

"The first and most important question to be decided is whether we shall seek voting allies in the South or from the pressure groups in the big Northern cities. For, if we continue to court both we shall win neither. For my part, I have long favored a party realignment that will give us two meaningful parties. The sooner the better.

"The gratifying victory of a number of Republican Congressmen south of the Mason-Dixon Line in an off-year election — especially our victories in Texas and Florida — are clear-cut indications of a growing affinity between Southern thinking and the non-urbanized segment of the Republican party. Passage of the Mundt-Coudert Amendment by the 84th Congress will be a long step in that direction."

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Fallacious Strategy: Under the guidance of White House "strategists," Eisenhower failed to bring to the polls millions who supported him two years ago on the issues of "Korea, Communism and corruption" and his by-passing of "civil rights" questions. In that brief interlude Eisenhower went out of his way to provoke anti-Communist friends of Senator McCarthy, Catholic and Protestant, and to "rub salt" on the most sensitive nerve of Southern voters.

More than five million of Eisenhower's 1952 plurality lead over his Congressional running-mates came from the Southern and Border states, while only 1.9 million came from the 32 states of the North and West. Even then, in these states he carried 234 Congressional Districts, 31 more than his running-mates. Surely, had he not needlessly offended so many of his 1952 supporters and had he campaigned in these 31 districts, giving personal endorsements to the Republican candidates, some districts might well have returned Republicans to Congress. Similar efforts in behalf of beleaguered Republican Congressmen, instead of the "high-level" campaigning so reminiscent of Dewey in '48, might have saved some of them from defeat.

Victory in the South: The triumph of J. Strom Thurmond, independent Democrat, in the Senatorial election in South Carolina is one of the outstanding phenomena of this "strange election" year. So far as we can discover, this is the first time a write-in candidate has won a national office by such methods. The fact that the people of South Carolina literally swamped the polling booths and over-rode the will of the regular party machinery signifies a clear mandate against the "frustrationist" strategy of the State committee. Specific developments of this extraordinary outcome are listed, by observers, as follows:

(1) The election of Thurmond is a victory for States Rights. The new Senator was the presidential candidate for the Democratic States Rights party in 1948 and carried the electoral votes of four Southern states. He has never wavered in support of his original principles.

(2) The mandate for Thurmond is a victory over New Deal Democrats. He was backed by retiring Governor Byrnes, who bolted the national Democratic party in 1952 and plumped for Eisenhower. Byrnes has ever since bucked these Democrats in his State party who wished to play ball with the Northern wing of the Democrats. The opposition to Thurmond was clearly composed of the latter element in South Carolina. Brown, his opponent, was especially representative of these New Deal Democrats.

(3) Thurmond's triumph may well have repercussions throughout the South. Observers link this performance with the victory of conservative (and States Rights) Governor Allen Shivers in Texas last August. Certainly, it can be said that Thurmond's election to the Senate offsets the re-election of New Deal Sparkman.

Behind the Statistics: The decisive and surprising defeat of Democratic Senatorial candidate John A. Carroll of Colorado has made happy the anti-Communists. Carroll's record is that of a "liberal" and anti-anti-Communist.

● Senator B. K. Wheeler's break with the Democratic party in Montana, signalized by speeches in the western, industrial part of the state sharply reduced Democratic Senator Murray's vote in that area. Wheeler, a nationalist, attacked Murray as an "internationalist," and for working to get the U.S. into the last war.

● Rep. Busbey, outspoken anti-Communist and pro-McCarthyite, was defeated in his district by a large influx of "eastern money," according to advices from Chicago.

● Republicans in Washington, D. C., rejoice that GOP Congressman Broyhill defeated a New Deal Democrat John C. Webb, in the Arlington Congressional District, just across the Potomac from the Capital. But they are under no illusions that it was a GOP victory. They know that he won with the aid of conservative Democrats, who make up Senator Harry F. Byrd's organization.

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● The surprising defeat of Democratic Senator Guy Gillette of Iowa by GOP Representative Martin was due in large part to an unpublicized "undertow" which escaped the notice of visiting observers. Friends of Martin quietly but very widely talked against Gillette because of the latter's internationalist policies in the past few years, and this is believed to have had a sharply adverse effect on the veteran Democrat's once strong popularity among Iowans.

● Bender's victory over Democratic Burke in Ohio by a very close margin has political observers arguing about just which factors influenced the outcome. Some mention the fact that Senator Burke came out with a statement pledging himself to vote for censure of Sen. McCarthy. A few weeks ago, one GOP official predicted that Burke's stand on the Wisconsin Senator might lose him 100,000 votes.

● One ironic aspect of Ives' defeat in the gubernatorial race in New York is noted by observers with memories. Ives, as majority leader of the New York State Assembly in 1946, put over the state FEPC statute, and he was known as an advocate of "civil rights" legislation later as U. S. Senator. But a careful study shows that the "minorities" in New York city, whose votes the GOP thought they would thereby capture, actually cast the same overwhelming majorities against Ives as they have cast against other candidates not identified with such legislation.

Education Front: Pro-American elements in the colleges are rising in wrath against this year's national collegiate debate topic: "Resolved: that the U.S. should extend diplomatic recognition to the Communist government of China." One institution of higher learning, College of Mt. St. Joseph in Cincinnati, Ohio, has assailed the choice of the question as giving propaganda possibilities for the Communists all around the world. The college urges the Speech Association of America, which posed the resolution, to offer a substitute. Similar reactions are reported elsewhere in the country.

● President Duncan S. Ballantine of Reed College (Portland, Oregon) has offered his resignation. The House Un-American Activities Committee recently brought out evidence of dissension between the President and faculty of this college and named 3 faculty members as former C.P. members. Ballantine suspended one of these, but the faculty protested that Ballantine should have consulted the faculty before suspension.

● Harvard, as reported in that college's daily *Crimson*, October 12, has a Conservative club. According to David B. Cole '55, Secretary of the Harvard Conservative League (Eliot House H-43, Harvard College, Cambridge, Mass.), interviewed by the *Crimson*, "undergraduates are apparently afraid to join the Conservative group . . . because 'they understandably fear reprisals from the administration and fellow students.' The Club has invited a speaker to talk on 'Socialist bias in American Colleges,' he said. 'The Club feels this subject particularly appropriate in the light of the Harvard Student body's naivete to the dangers of subversion'."

● Congressman Ralph Gwinn, chairman of the House sub-committee on Education, points out that although the Constitution makes no mention of the word "education," 37 different departments and agencies in 1950 conducted 298 educational programs at a cost of $3.5 billion. The total figure, Gwinn says, has not diminished of late although the GI educational benefits are now only a negligible factor. Worse still, only 1 percent of the $3.5 billion was expended in 1950 through the U.S. Office of Education, the rest going through various Federal departments and agencies. Hence, Congress has no central source of information on what the latter are doing in the field of education.

McCarthy Rally: Seats for this function can be had by calling B. M. Miller, Otis 4-7256, in Arlington, Va. In the New York area, call Rabbi Schultz, Longacre 5-7549.

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